

Hillsdale Board of Public Utilities

Financial Report
With Supplemental Information

Year Ended June 30, 2008

Independent Auditors' Report.....	i-ii
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Basic Financial Statements

Financial Statements:

Statement of Net Assets.....	1
Statement of Revenues, Expenses and Changes in Net Assets.....	2
Statement of Cash Flows	3

Notes to Financial Statements.....	4-11
------------------------------------	------

Supplemental Information

Electric Fund:

Statements of Net Assets.....	12
Statements of Revenues, Expenses and Changes in Net Assets.....	13
Schedules of Operating Expenses	14

Water Fund:

Statements of Net Assets.....	15
Statements of Revenues, Expenses and Changes in Net Assets.....	16
Schedules of Operating Expenses	17
Schedules of Bonded Debt.....	18-19

Sewer Fund:

Statements of Net Assets.....	20
Statements of Revenues, Expenses and Changes in Net Assets.....	21
Schedules of Operating Expenses	22
Schedule of Bonded Debt.....	23

Report on Compliance and on Internal Control

Over Financial Reporting Based on an Audit of Financial Statements

Performed in Accordance with <i>Government Auditing Standards</i>	24-25
--	--------------

Schedule of Findings and Responses.....	26
--	-----------



Independent Auditors' Report

Board Members
Hillsdale Board of Public Utilities
Hillsdale, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the Hillsdale Board of Public Utilities, Enterprise Funds of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hillsdale Board of Public Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Hillsdale Board of Public Utilities Enterprise Funds and are not intended to present fairly the financial position of the City of Hillsdale, and the changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Hillsdale Board of Public Utilities as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 1, 2008 on our consideration of the Board's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Board Members
Hillsdale Board of Public Utilities

The Hillsdale Board of Public Utilities has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements. The Hillsdale Board of Public Utilities has elected not to prepare such analysis, but encourages users of these financial statements to read the MD&A contained in the annual financial report of the City of Hillsdale for the year ended June 30, 2008.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hillsdale Board of Public Utilities basic financial statements. The accompanying supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The current year supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Willis & Jurasek PC".

Willis & Jurasek, P.C.

October 1, 2008

Hillsdale Board of Public Utilities
Statement of Net Assets
June 30, 2008

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 1,637,748	\$ -	\$ 60,111	\$ 1,697,859
Receivables:				
Customer accounts, net of allowance for doubtful accounts of \$120,000	1,394,122	106,757	52,047	1,552,926
Interest	24,543	4,015	4,902	33,460
Due from other funds of BPU	-	-	380,188	380,188
Due from other funds of City	1,217	18	-	1,235
Inventories	422,051	80,750	7,195	509,996
Prepaid expenses	85,567	21,130	34,408	141,105
	<u>3,565,248</u>	<u>212,670</u>	<u>538,851</u>	<u>4,316,769</u>
Total current assets				
Restricted and designated assets:				
Designated investments	3,427,468	304,761	321,272	4,053,501
Restricted investments	-	637,562	637,398	1,274,960
	<u>3,427,468</u>	<u>942,323</u>	<u>958,670</u>	<u>5,328,461</u>
Total restricted and designated assets				
Capital assets:				
Property, plant and equipment, at cost	30,327,566	10,135,866	13,709,690	54,173,122
Less: accumulated depreciation	18,034,235	4,579,836	9,213,929	31,828,000
	<u>12,293,331</u>	<u>5,556,030</u>	<u>4,495,761</u>	<u>22,345,122</u>
Total capital assets (net)				
Other assets:				
Long-term inventories	397,833	-	-	397,833
Investment in M.S.C.P.A.	7,598,513	-	-	7,598,513
	<u>7,996,346</u>	<u>-</u>	<u>-</u>	<u>7,996,346</u>
Total other assets				
Total assets	<u>27,282,393</u>	<u>6,711,023</u>	<u>5,993,282</u>	<u>39,986,698</u>

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
Liabilities:				
Current liabilities payable from current assets:				
Accounts payable	\$ 77,470	\$ 2,274	\$ 6,802	\$ 86,546
Accrued purchased power	997,286	-	-	997,286
Due to other funds of BPU	-	380,188	-	380,188
Due to other funds of City	37,706	3,423	1,821	42,950
Customer deposits	5,676	6,240	58	11,974
Accrued liabilities:				
Payroll taxes	4,044	-	-	4,044
Other	41,927	413	11,947	54,287
Total current liabilities payable from current assets	<u>1,164,109</u>	<u>392,538</u>	<u>20,628</u>	<u>1,577,275</u>
Current liabilities payable from restricted assets:				
Bonds payable	-	270,000	150,000	420,000
Accrued interest	-	30,688	3,925	34,613
Total current liabilities payable from restricted assets	-	300,688	153,925	454,613
Compensated absences payable	96,610	29,580	32,544	158,734
Long-term debt, net of current maturities:				
Bonds payable	-	2,555,000	635,000	3,190,000
Total liabilities	<u>1,260,719</u>	<u>3,277,806</u>	<u>842,097</u>	<u>5,380,622</u>
Net Assets:				
Invested in capital assets, net of related debt	12,293,331	2,731,030	3,710,761	18,735,122
Restricted for debt service	-	637,562	637,398	1,274,960
Unrestricted (deficit)	<u>13,728,343</u>	<u>64,625</u>	<u>803,026</u>	<u>14,595,994</u>
Total net assets	<u>\$ 26,021,674</u>	<u>\$ 3,433,217</u>	<u>\$ 5,151,185</u>	<u>\$ 34,606,076</u>

Hillsdale Board of Public Utilities
Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2008

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
Operating Revenue:				
Sales to customers:				
Residential	\$ 3,988,103	\$ 621,190	\$ 296,108	\$ 4,905,401
Business	1,165,208	161,519	69,070	1,395,797
Commercial	3,563,442	259,093	125,864	3,948,399
Industrial	3,488,763	156,984	102,999	3,748,746
Apartments	-	307,612	145,285	452,897
Street light sales	46,986	-	-	46,986
Other operating income	<u>56,175</u>	<u>7,267</u>	<u>8,688</u>	<u>72,130</u>
 Total operating revenue	 <u>12,308,677</u>	 <u>1,513,665</u>	 <u>748,014</u>	 <u>14,570,356</u>
 Operating Expenses:				
Purchased power	8,085,564	-	-	8,085,564
Production expense	823,638	57,464	-	881,102
Transmission and distribution	1,121,268	-	-	1,121,268
Collection system expense	-	-	193,800	193,800
Treatment expense	-	-	550,042	550,042
Purification expense	-	204,060	-	204,060
Distribution expense	-	340,392	-	340,392
Administrative and general	<u>951,812</u>	<u>266,336</u>	<u>267,758</u>	<u>1,485,906</u>
 Total operating expenses	 <u>10,982,282</u>	 <u>868,252</u>	 <u>1,011,600</u>	 <u>12,862,134</u>
 Operating Income	 <u>1,326,395</u>	 <u>645,413</u>	 <u>(263,586)</u>	 <u>1,708,222</u>
 Non-operating Revenue (Expense):				
Interest income	257,302	39,324	58,194	354,820
Interest expense	-	(125,184)	(17,950)	(143,134)
Other non-operating income (expense)	<u>16,239</u>	<u>(5,020)</u>	<u>(10,011)</u>	<u>1,208</u>
 Total non-operating revenue (expense)	 <u>273,541</u>	 <u>(90,880)</u>	 <u>30,233</u>	 <u>212,894</u>
 Changes in Net Assets	 1,599,936	 554,533	 (233,353)	 1,921,116
 Net Assets, Beginning of Year	 <u>24,421,738</u>	 <u>2,878,684</u>	 <u>5,384,538</u>	 <u>32,684,960</u>
 Net Assets, End of Year	 <u>\$ 26,021,674</u>	 <u>\$ 3,433,217</u>	 <u>\$ 5,151,185</u>	 <u>\$ 34,606,076</u>

See Notes to Financial Statements.

Hillsdale Board of Public Utilities
Statement of Cash Flows
Year Ended June 30, 2008

	Business-Type Activities - Enterprise Funds			
	Electric	Water	Sewer	Total
Cash Flows from Operating Activities:				
Cash received from customers, residents and users	\$ 12,400,390	\$ 1,496,794	\$ 734,327	\$ 14,631,511
Other operating receipts	56,175	7,267	8,688	72,130
Cash paid to employees and suppliers	(12,480,627)	(986,986)	(548,444)	(14,016,057)
Net cash provided by operating activities	(24,062)	517,075	194,571	687,584
Cash Flows from Capital and Related Financing Activities:				
Bond payments on capital debt	-	(260,000)	(150,000)	(410,000)
Interest payments on capital debt	-	(127,615)	(18,700)	(146,315)
Proceeds from the disposal of assets	1,700	-	-	1,700
Purchase of capital assets, net	(652,509)	(126,130)	(450,244)	(1,228,883)
Net cash used by capital and related financing activities	(650,809)	(513,745)	(618,944)	(1,783,498)
Cash Flows from Investing Activities:				
Unrealized gain on investments	(7,753)	(2,786)	(3,315)	(13,854)
Purchase of investments	(150,870)	(37,834)	(33,375)	(222,079)
Proceeds from the sale of investments	-	200	-	200
Other non-operating income received	-	-	-	-
Other non-operating expenses	-	(2,234)	(6,696)	(8,930)
Interest income received	257,302	39,324	58,194	354,820
Net cash provided by investing activities	98,679	(3,330)	14,808	110,157
Net Increase (Decrease) in Cash and Cash Equivalents	(576,192)	-	(409,565)	(985,757)
Cash and Cash Equivalents, Beginning of Year	2,213,940	-	469,676	2,683,616
Cash and Cash Equivalents, End of Year	\$ 1,637,748	\$ -	\$ 60,111	\$ 1,697,859
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	\$ 1,326,395	\$ 645,413	\$ (263,586)	\$ 1,708,222
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	636,474	210,543	157,904	1,004,921
(Increase) decrease in:				
Receivables	(405,872)	(9,932)	(4,999)	(420,803)
Due from other funds	2,211	(18)	299,539	301,732
Inventories	(158,802)	(3,430)	2,286	(159,946)
Prepays	(1,109)	214	1,107	212
Investment in M.S.C.P.A.	(1,601,876)	-	-	(1,601,876)
Increase (decrease) in:				
Accounts payable	40,196	(27,914)	(4,200)	8,082
Accrued expenses	141,963	1,410	6,597	149,970
Due to other funds	(3,042)	(299,539)	(77)	(302,658)
Customer deposits	(600)	328	-	(272)
Net Cash Provided by Operating Activities	\$ (24,062)	\$ 517,075	\$ 194,571	\$ 687,584

See Notes to Financial Statements.

Hillsdale Board of Public Utilities

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Hillsdale Board of Public Utilities (BPU) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The Hillsdale Board of Public Utilities (the BPU) provides electric, water and sewage disposal services to residents of the City of Hillsdale (the City) and nearby townships, as recorded in three separate enterprise funds. Policy is set and operations are directed by a five-member Board.

Measurement Focus and Basis of Accounting

The BPU uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The operations of the BPU are accounted for as Enterprise Funds of the City of Hillsdale, Michigan, which are designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and the resulting net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The BPU reports the following major proprietary funds:

Electric – This fund accounts for the activities of the BPU's electric generation and distribution systems.

Water – This fund accounts for the activities of the BPU's water production, purification and distribution systems.

Sewer – This fund accounts for the activities of the BPU's sewer collection and treatment systems.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance of their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Hillsdale Board of Public Utilities

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Proprietary funds (enterprise funds) distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the BPU enterprise funds are charges to customers for sales and services. The BPU also recognizes as operating revenue the portion of fees intended to record the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, demand deposits and certificates of deposits with original maturities of three months or less from the date of acquisition.

State statutes authorize the BPU to invest surplus funds in bonds, securities, other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements; certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution; commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; bankers' acceptances of United States banks; obligations of the State of Michigan or any of its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service; mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; and external investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments are stated at fair value.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Receivables

All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Inventories and Prepaid Items

Inventories are valued at cost, which approximates market, using the average cost method. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Hillsdale Board of Public Utilities

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets which include land and buildings, plant, vehicles and equipment, and infrastructure assets (e.g., pipes, poles, wire, transformers, and similar items) are reported in the business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized when projects are completed.

Property, plant, and equipment of the BPU is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Property, plant, and equipment	10-65

Net Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Restricted resources are applied first when an expense is incurred for which both restricted and unrestricted net assets are available. Restricted net assets segregate resources accumulated for debt service payments. Designations of net assets represent tentative management plans that are subject to change.

Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund, are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Pension Plan Funding

The BPU policy is to fund pension costs as they accrue.

Compensated Absences

Accumulated unpaid vacation, sick, and personal days are accrued when earned.

Hillsdale Board of Public Utilities
Notes to Financial Statements

Note 2 – Cash and Investments

A summary of cash and investments at year-end is as follows:

Bank deposits (checking and savings accounts and short-term CDs)	\$1,697,259
Investments	5,328,461
Cash on hand	<u>600</u>
	<u>\$7,026,320</u>

Investments are further specifically identified as of year-end, as follows:

	<u>Amount</u>	<u>Rating</u>
Fidelity Investment Cash	\$ 897,160	N/A
U.S. Government Agency Bonds (maturing in 1 to 5 years)	3,488,683	AAA
Corporate Bonds	<u>942,618</u>	N/A
	<u>\$5,328,461</u>	

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. The Board has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$1,558,442 of the Board's bank balance of \$1,800,812 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Board has not adopted and State law does not require a policy for investment custodial risk.

Interest Rate Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above (see Note 1). The Board's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment type are identified above for investments held at year-end.

Credit Risk

State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above (see Note 1). The Board's investment policy does not have specific limits in excess of State law on investment credit risk. The ratings for each investment are identified above for applicable investments held at year-end.

Hillsdale Board of Public Utilities
Notes to Financial Statements

Note 3 – Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 189,982	\$ 106,411	\$ -	\$ 296,393
Construction in progress	<u>738,356</u>	<u>-</u>	<u>(459,472)</u>	<u>278,884</u>
Total capital assets not being depreciated	<u>928,338</u>	<u>106,411</u>	<u>(459,472)</u>	<u>575,277</u>
Capital assets being depreciated:				
Plant and systems	52,115,211	1,581,938	(99,304)	53,597,845
Accumulated depreciation:				
Plant and systems	<u>30,920,430</u>	<u>1,004,921</u>	<u>(97,351)</u>	<u>31,828,000</u>
Total capital assets being depreciated, net	<u>21,194,781</u>	<u>577,017</u>	<u>(1,953)</u>	<u>21,769,845</u>
Business-type activities capital assets – net	<u>\$ 22,123,119</u>	<u>\$ 683,429</u>	<u>\$ (461,423)</u>	<u>\$ 22,345,122</u>

Depreciation expense was charged to operating expenses as follows:

Electric Fund	\$ 636,474
Water Fund	210,543
Sewer Fund	<u>157,904</u>
	<u>\$ 1,004,921</u>

Note 4 – Investment in Michigan South Central Power Agency

The Michigan South Central Power Agency (M.S.C.P.A.) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The Act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<u>Percent Of Ownership</u>
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	<u>4.0</u>
	<u>100.0%</u>

Hillsdale Board of Public Utilities
Notes to Financial Statements

Note 4 - Investment in Michigan South Central Power Agency (Continued)

The Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with Governmental Accounting Standards Board Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2008, audited by other auditors, who expressed an unqualified opinion on those statements.

The BPU has entered into a Power Sales Contract with M.S.C.P.A. which requires the BPU to purchase all of its bulk power supply from M.S.C.P.A. and to pay its share of M.S.C.P.A.'s operating and debt service costs. The BPU has also entered into an agreement for services to be provided by the M.S.C.P.A. in respect to substation facilities and an agreement which requires the BPU to sell to M.S.C.P.A. power generated by its facilities.

The summary information of the BPU investment in the M.S.C.P.A. for the year ended June 30, 2008 is as follows:

	Total M.S.C.P.A.	Hillsdale BPU Portion 25.5%
Total assets	\$ 74,726,006	\$ 19,055,131
Total liabilities	<u>44,927,913</u>	<u>11,456,618</u>
Net Assets	<u>\$ 29,798,093</u>	<u>\$ 7,598,513</u>
Operating revenues	\$ 45,869,712	\$ 11,696,777
Operating expenses	<u>38,599,740</u>	<u>9,842,934</u>
Operating Income	7,269,972	1,853,842
Other income and expenses	<u>(988,104)</u>	<u>(251,966)</u>
Changes in Net Assets	6,281,868	1,601,876
Net Assets, Beginning of Year	<u>23,516,225</u>	<u>5,996,637</u>
Net Assets, End of Year	<u>\$ 29,798,093</u>	<u>\$ 7,598,513</u>

Hillsdale Board of Public Utilities
Notes to Financial Statements

Note 5 - Long-Term Debt

Long-term liabilities for the BPU's three enterprise funds for the year ended June 30, 2008, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Revenue bonds:					
1999 Water	\$ 1,745,000	\$ -	\$ 110,000	\$ 1,635,000	\$ 115,000
2002 Water					
Refunding	1,340,000	-	150,000	1,190,000	155,000
1992 Sewer	<u>935,000</u>	<u>-</u>	<u>150,000</u>	<u>785,000</u>	<u>150,000</u>
	4,020,000	-	410,000	3,610,000	420,000
Compensated absences	<u>162,773</u>	<u>-</u>	<u>4,039</u>	<u>158,734</u>	<u>-</u>
Total	<u>\$ 4,182,773</u>	<u>\$ -</u>	<u>\$ 414,039</u>	<u>\$ 3,768,734</u>	<u>\$ 420,000</u>

Revenue bonds consist of the following:

Water Fund

1999 Revenue Bonds – maturing \$110,000
to \$185,000 annually, plus interest from
4.75% to 5.10% through October 1, 2018

\$ 1,635,000

2002 Water Revenue Refunding Bonds – maturing
\$140,000 to \$190,000 annually, plus interest
from 3.00% to 4.00% through October 1, 2014

1,190,000
2,825,000

Sewer Fund

1992 Revenue Bonds – Michigan Municipal
Bond Authority Revolving Loan Fund payable,
maturing \$145,000 to \$165,000 annually,
plus interest at 2.00%, through April, 2013

785,000

\$ 3,610,000

Annual debt service requirements to maturity on the above governmental bond obligations are as follows:

	<u>Water</u>			<u>Sewer</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 270,000	\$ 117,696	\$ 387,696	\$ 150,000	\$ 15,700	\$ 165,700
2009	275,000	107,310	382,310	155,000	12,700	167,700
2010	290,000	96,132	386,132	155,000	9,600	164,600
2011	305,000	84,061	389,061	160,000	6,500	166,500
2012	315,000	71,306	386,306	165,000	3,300	168,300
2013 - 2017	1,185,000	168,155	1,353,155	-	-	-
2018 - 2019	<u>185,000</u>	<u>4,718</u>	<u>189,718</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,825,000</u>	<u>\$ 649,378</u>	<u>\$ 3,474,378</u>	<u>\$ 785,000</u>	<u>\$ 47,800</u>	<u>\$ 832,800</u>

Hillsdale Board of Public Utilities

Notes to Financial Statements

Note 6 - Employee Retirement System

Plan Description

The BPU, in conjunction with the City of Hillsdale, participates in an agent multiple-employer defined benefit public employee retirement system governed by the State of Michigan, titled Municipal Employees Retirement System (MERS). Information regarding this plan can be found in the City of Hillsdale annual financial statements.

Note 7 - Risk Management

The BPU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The BPU carries commercial insurance to cover risks of losses. The BPU settled claims resulting from these risks did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Interfund Receivables and Payables

The composition of interfund balances at year-end is as follows:

Due To/From Other Funds of BPU:	<u>Receivables</u>	<u>Payables</u>
Water	\$ -	\$ 380,188
Sewer	<u>380,188</u>	<u>-</u>
	<u>\$ 380,188</u>	<u>\$ 380,188</u>
Due To/From Other Funds of City:	<u>Receivables</u>	<u>Payables</u>
Electric	\$ 1,217	\$ 37,706
Water	18	3,423
Sewer	<u>-</u>	<u>1,821</u>
	<u>\$ 1,235</u>	<u>\$ 42,950</u>

The BPU reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the business-type activities. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Note 9 – Major Customers

The BPU had three customers that comprised 10.3%, 6.1%, and 4.9% of the June 30, 2008 revenue.

Supplemental Information

Hillsdale Board of Public Utilities
Electric Fund
Statements of Net Assets
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,637,748	\$ 2,213,940
Receivables (net of allowance for uncollectibles):		
Customer accounts	1,394,122	988,678
Interest	24,543	24,115
Due from City	1,217	3,428
Inventories	422,051	661,082
Prepaid expenses	<u>85,567</u>	<u>84,458</u>
Total current assets	<u>3,565,248</u>	<u>3,975,701</u>
Restricted and designated assets:		
Designated investments	<u>3,427,468</u>	<u>3,256,997</u>
Total restricted and designated assets	<u>3,427,468</u>	<u>3,256,997</u>
Capital assets:		
Property, plant and equipment, at cost	30,327,566	29,762,872
Less: accumulated depreciation	<u>18,034,235</u>	<u>17,492,604</u>
Total capital assets	<u>12,293,331</u>	<u>12,270,268</u>
Other assets:		
Long-term inventories	397,833	-
Investment in M.S.C.P.A.	<u>7,598,513</u>	<u>5,996,638</u>
Total other assets	<u>7,996,346</u>	<u>5,996,638</u>
Total assets	<u>27,282,393</u>	<u>25,499,604</u>

	<u>2008</u>	<u>2007</u>
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 77,470	\$ 37,274
Accrued purchased power	997,286	865,050
Due to City	37,706	40,748
Customer deposits	5,676	6,276
Payroll taxes	4,044	3,185
Other	<u>41,927</u>	<u>33,059</u>
 Total current liabilities	 1,164,109	 985,592
 Compensated absences	 <u>96,610</u>	 <u>92,275</u>
 Total liabilities	 <u>1,260,719</u>	 <u>1,077,867</u>
 Net Assets:		
Invested in capital assets, net of related debt	12,293,331	12,270,268
Unrestricted	<u>13,728,343</u>	<u>12,151,469</u>
 Total net assets	 <u>\$ 26,021,674</u>	 <u>\$ 24,421,737</u>

Hillsdale Board of Public Utilities
Electric Fund
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenue:		
Sales to customers:		
Residential	\$ 3,988,103	\$ 3,983,175
Business	1,165,208	1,165,090
Commercial	3,563,442	3,409,403
Industrial	3,488,763	3,708,061
Street light sales	46,986	47,023
Other operating income	<u>56,175</u>	<u>47,683</u>
 Total operating revenue	 <u>12,308,677</u>	 <u>12,360,435</u>
Operating Expenses:		
Purchased power	8,085,564	6,304,511
Production expense	823,638	863,998
Transmission and distribution	1,121,268	1,164,930
Administrative and general	<u>951,812</u>	<u>838,673</u>
 Total operating expenses	 <u>10,982,282</u>	 <u>9,172,112</u>
Operating Income (Loss)	<u>1,326,395</u>	<u>3,188,323</u>
Non-operating Revenue (Expense):		
Interest income	257,302	258,362
Other non-operating income (expense)	<u>16,239</u>	<u>51,989</u>
 Total non-operating revenue (expense)	 <u>273,541</u>	 <u>310,351</u>
Changes in Net Assets	 1,599,936	 3,498,674
Net Assets, Beginning of Year	<u>24,421,738</u>	<u>20,923,063</u>
Net Assets, End of Year	<u>\$ 26,021,674</u>	<u>\$ 24,421,737</u>

Hillsdale Board of Public Utilities
Electric Fund
Schedules of Operating Expenses
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Purchased Power:		
Purchased power	\$ 10,241,800	\$ 9,584,207
Power cost adjustment	(554,360)	(1,746,774)
Gain on investment in M.S.C.P.A.	<u>(1,601,876)</u>	<u>(1,532,922)</u>
 Total purchased power	 <u>\$ 8,085,564</u>	 <u>\$ 6,304,511</u>
 Production Expense:		
Depreciation	\$ 241,788	\$ 252,165
Engine fuels	25,871	79,958
Production operation	485,382	456,206
Production maintenance	<u>70,597</u>	<u>75,669</u>
 Total production expense	 <u>\$ 823,638</u>	 <u>\$ 863,998</u>
 Transmission and Distribution Expense:		
Depreciation	\$ 329,205	\$ 315,050
Distribution operation	347,352	380,799
Distribution maintenance	<u>444,711</u>	<u>469,081</u>
 Total transmission and distribution expense	 <u>\$ 1,121,268</u>	 <u>\$ 1,164,930</u>
 Administrative and General Expense:		
Payment in lieu of tax	\$ 476,295	\$ 477,351
Depreciation	65,481	59,488
Customer accounts expense	84,609	72,052
Customer service and information expense	27,947	26,544
Administrative operation	291,206	196,914
Administrative maintenance	<u>6,274</u>	<u>6,324</u>
 Total administrative and general expense	 <u>\$ 951,812</u>	 <u>\$ 838,673</u>

Hillsdale Board of Public Utilities
Water Fund
Statements of Net Assets
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets:		
Accounts receivable	\$ 106,757	\$ 97,542
Interest receivable	4,015	3,298
Due from other funds of City	18	-
Inventory	80,750	77,320
Prepaid expenses	<u>21,130</u>	<u>21,344</u>
Total current assets	<u>212,670</u>	<u>199,504</u>
 Restricted and designated assets:		
Designated investments	304,761	281,255
Restricted investments	<u>637,562</u>	<u>629,210</u>
Total restricted and designated assets	<u>942,323</u>	<u>910,465</u>
 Capital assets:		
Property, plant and equipment, at cost	10,135,866	10,011,279
Less: accumulated depreciation	<u>4,579,836</u>	<u>4,369,954</u>
Total capital assets	<u>5,556,030</u>	<u>5,641,325</u>
Total assets	<u>6,711,023</u>	<u>6,751,294</u>

	<u>2008</u>	<u>2007</u>
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 2,274	\$ 30,188
Due to other funds of BPU	380,188	679,727
Due to City	3,423	3,557
Accrued liabilities	6,240	4,830
Customer deposits	<u>413</u>	<u>85</u>
Total current liabilities payable from current assets	<u>392,538</u>	<u>718,387</u>
Current liabilities payable from restricted assets:		
Bonds payable	270,000	260,000
Accrued interest	<u>30,688</u>	<u>33,119</u>
Total current liabilities payable from restricted assets	300,688	293,119
Compensated absences payable	29,580	36,104
Long-term debt, net of current maturities:		
Bonds payable	<u>2,555,000</u>	<u>2,825,000</u>
Total liabilities	<u>3,277,806</u>	<u>3,872,610</u>
Net Assets:		
Invested in capital assets, net of related debt	2,731,030	2,556,325
Restricted for debt service	637,562	629,210
Unrestricted (deficit)	<u>64,625</u>	<u>(306,851)</u>
Total net assets	<u>\$ 3,433,217</u>	<u>\$ 2,878,684</u>

Hillsdale Board of Public Utilities
Water Fund
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenue:		
Sales to customers:		
Residential	\$ 621,190	\$ 613,774
Business	161,519	154,257
Commercial	259,093	260,396
Industrial	156,984	129,505
Apartments	307,612	307,174
Other operating income	<u>7,267</u>	<u>9,593</u>
 Total operating revenue	 <u>1,513,665</u>	 <u>1,474,699</u>
 Operating Expenses:		
Production expense	57,464	55,739
Purification expense	204,060	232,293
Distribution expense	340,392	415,347
Administrative and general	<u>266,336</u>	<u>227,184</u>
 Total operating expenses	 <u>868,252</u>	 <u>930,563</u>
 Operating Income (Loss)	 <u>645,413</u>	 <u>544,136</u>
 Non-operating Revenue (Expense):		
Interest income	39,324	54,487
Interest expense	(125,184)	(134,834)
Other non-operating income (expense)	<u>(5,020)</u>	<u>(4,224)</u>
 Total non-operating revenue (expense)	 <u>(90,880)</u>	 <u>(84,571)</u>
 Changes in Net Assets	 554,533	 459,565
 Net Assets, Beginning of Year	 <u>2,878,684</u>	 <u>2,419,119</u>
 Net Assets, End of Year	 <u>\$ 3,433,217</u>	 <u>\$ 2,878,684</u>

Hillsdale Board of Public Utilities
Water Fund
Schedules of Operating Expenses
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Production Expense:		
Depreciation	\$ 12,830	\$ 12,830
Production operation	36,930	34,093
Production maintenance	<u>7,704</u>	<u>8,816</u>
Total production expense	<u>\$ 57,464</u>	<u>\$ 55,739</u>
Purification Expense:		
Depreciation	\$ 58,789	\$ 58,789
Chemical expense	43,628	43,664
Purification operation	89,281	95,126
Purification maintenance	<u>12,362</u>	<u>34,714</u>
Total purification expense	<u>\$ 204,060</u>	<u>\$ 232,293</u>
Distribution Expense:		
Depreciation	\$ 128,448	\$ 130,534
Distribution operation	90,080	78,831
Distribution maintenance	<u>121,864</u>	<u>205,982</u>
Total distribution expense	<u>\$ 340,392</u>	<u>\$ 415,347</u>
Administrative and General Expense:		
Payment in lieu of tax	\$ 42,587	\$ 41,119
Depreciation	10,476	10,172
Customer accounts expense	50,999	56,133
Customer service and information expense	14,513	13,718
Administrative operation	144,905	103,245
Administrative maintenance	<u>2,856</u>	<u>2,797</u>
Total administrative and general expense	<u>\$ 266,336</u>	<u>\$ 227,184</u>

Hillsdale Board of Public Utilities
Water Fund
Schedule of Bonded Debt
June 30, 2008

Revenue Bonds - Series 1999

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
October 1, 2008	4.750%	\$ 115,000	\$ 40,122	\$ 155,122
April 1, 2009			37,391	37,391
October 1, 2009	4.750%	120,000	37,391	157,391
April 1, 2010			34,541	34,541
October 1, 2010	4.750%	130,000	34,541	164,541
April 1, 2011			31,453	31,453
October 1, 2011	4.750%	135,000	31,453	166,453
April 1, 2012			28,247	28,247
October 1, 2012	4.800%	140,000	28,247	168,247
April 1, 2013			24,887	24,887
October 1, 2013	4.875%	145,000	24,887	169,887
April 1, 2014			21,353	21,353
October 1, 2014	4.900%	155,000	21,353	176,353
April 1, 2015			17,555	17,555
October 1, 2015	5.000%	160,000	17,555	177,555
April 1, 2016			13,555	13,555
October 1, 2016	5.050%	170,000	13,555	183,555
April 1, 2017			9,262	9,262
October 1, 2017	5.050%	180,000	9,262	189,262
April 1, 2018			4,718	4,718
October 1, 2018	5.100%	185,000	4,718	189,718
Totals		<u>\$ 1,635,000</u>	<u>\$ 486,046</u>	<u>\$ 2,121,046</u>

Hillsdale Board of Public Utilities
Water Fund
Schedule of Bonded Debt
June 30, 2008

Revenue Refunding Bonds - Series 2002

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
October 1, 2008	3.000%	\$ 155,000	\$ 21,254	\$ 176,254
April 1, 2009			18,929	18,929
October 1, 2009	3.200%	155,000	18,929	173,929
April 1, 2010			16,449	16,449
October 1, 2010	3.450%	160,000	16,449	176,449
April 1, 2011			13,689	13,689
October 1, 2011	3.550%	170,000	13,689	183,689
April 1, 2012			10,672	10,672
October 1, 2012	3.625%	175,000	10,672	185,672
April 1, 2013			7,500	7,500
October 1, 2013	4.000%	185,000	7,500	192,500
April 1, 2014			3,800	3,800
October 1, 2014	4.000%	190,000	3,800	193,800
Totals		<u>\$ 1,190,000</u>	<u>\$ 163,332</u>	<u>\$ 1,353,332</u>

Hillsdale Board of Public Utilities
Sewer Fund
Statements of Net Assets
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 60,111	\$ 469,676
Accounts receivable	52,047	47,045
Interest receivable	4,902	4,905
Due from other funds of BPU	380,188	679,727
Inventory	7,195	9,481
Prepaid expenses	<u>34,408</u>	<u>35,515</u>
Total current assets	<u>538,851</u>	<u>1,246,349</u>
Restricted and designated assets:		
Designated investments	321,272	305,147
Restricted investments	<u>637,398</u>	<u>613,806</u>
Total restricted and designated assets	<u>958,670</u>	<u>918,953</u>
Capital assets:		
Property, plant and equipment, at cost	13,709,690	13,269,398
Less: accumulated depreciation	<u>9,213,929</u>	<u>9,057,872</u>
Total capital assets	<u>4,495,761</u>	<u>4,211,526</u>
Total assets	<u>5,993,282</u>	<u>6,376,828</u>

	<u>2008</u>	<u>2007</u>
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 6,802	\$ 11,002
Due to City	1,821	1,898
Accrued liabilities	11,947	5,347
Other	<u>58</u>	<u>-</u>
Total current liabilities payable from current assets	<u>20,628</u>	<u>18,247</u>
Current liabilities payable from restricted assets:		
Bonds payable	150,000	150,000
Accrued interest	<u>3,925</u>	<u>4,675</u>
Total current liabilities payable from restricted assets	153,925	154,675
Compensated absences payable	32,544	34,364
Long-term debt, net of current maturities:		
Bonds payable	<u>635,000</u>	<u>785,000</u>
Total liabilities	<u>842,097</u>	<u>992,286</u>
Net Assets:		
Invested in capital assets, net of related debt	3,710,761	-
Restricted for debt service	637,398	-
Unrestricted	<u>803,026</u>	<u>5,384,542</u>
Total net assets	<u>\$ 5,151,185</u>	<u>\$ 5,384,542</u>

Hillsdale Board of Public Utilities
Sewer Fund
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenue:		
Sales to customers:		
Residential	\$ 296,108	\$ 286,455
Business	69,070	66,349
Commercial	125,864	132,125
Industrial	102,999	82,494
Apartments	145,285	143,223
Other operating income	<u>8,688</u>	<u>9,039</u>
 Total operating revenue	 <u>748,014</u>	 <u>719,685</u>
Operating Expenses:		
Sewer collection system expense	193,800	177,478
Treatment expense	550,042	559,492
Administrative and general	<u>267,758</u>	<u>213,130</u>
 Total operating expenses	 <u>1,011,600</u>	 <u>950,100</u>
Operating Income	<u>(263,586)</u>	<u>(230,415)</u>
Non-operating Revenue (Expense):		
Interest income	58,194	65,098
Interest expense	(17,950)	(20,175)
Other non-operating income (expense)	<u>(10,011)</u>	<u>(2,246)</u>
 Total non-operating revenue (expense)	 <u>30,233</u>	 <u>42,677</u>
Changes in Net Assets	<u>(233,353)</u>	<u>(187,738)</u>
Net Assets, Beginning of Year	<u>5,384,538</u>	<u>5,572,280</u>
Net Assets, End of Year	<u><u>\$ 5,151,185</u></u>	<u><u>\$ 5,384,542</u></u>

Hillsdale Board of Public Utilities
Sewer Fund
Schedules of Operating Expenses
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Sewer Collection System Expense:		
Depreciation	\$ 62,018	\$ 62,867
Collection operation	72,200	47,720
Collection maintenance	<u>59,582</u>	<u>66,891</u>
 Total sewer collection system expense	 <u>\$ 193,800</u>	 <u>\$ 177,478</u>
 Treatment Expense:		
Depreciation	\$ 86,818	\$ 86,346
Chemical expense	14,045	20,889
Treatment operation	314,189	320,876
Treatment maintenance	<u>134,990</u>	<u>131,381</u>
 Total treatment expense	 <u>\$ 550,042</u>	 <u>\$ 559,492</u>
 Administrative and General Expense:		
Payment in lieu of tax	\$ 23,229	\$ 22,091
Depreciation	9,593	9,289
Customer accounts expense	56,307	57,553
Customer service and information expense	13,562	12,769
Administrative operation	162,162	108,439
Administrative maintenance	<u>2,905</u>	<u>2,989</u>
 Total administrative and general expense	 <u>\$ 267,758</u>	 <u>\$ 213,130</u>

Hillsdale Board of Public Utilities
Sewer Fund
Schedule of Bonded Debt
June 30, 2008

Michigan Municipal Bond Authority - March 26, 1992

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
October 1, 2008			\$ 7,850	\$ 7,850
April 1, 2009	2.00%	\$ 150,000	7,850	157,850
October 1, 2009			6,350	6,350
April 1, 2010	2.00%	155,000	6,350	161,350
October 1, 2010			4,800	4,800
April 1, 2011	2.00%	155,000	4,800	159,800
October 1, 2011			3,250	3,250
April 1, 2012	2.00%	160,000	3,250	163,250
October 1, 2012			1,650	1,650
April 1, 2013	2.00%	165,000	1,650	166,650
Totals		<u>\$ 785,000</u>	<u>\$ 47,800</u>	<u>\$ 832,800</u>



**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board Members
Hillsdale Board of Public Utilities
Hillsdale, Michigan

We have audited the financial statements of the Hillsdale Board of Public Utilities as of and for the year ended June 30, 2008, and have issued our report thereon dated October 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hillsdale Board of Public Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the BPU's financial statements that is more than inconsequential will not be prevented or detected by the BPU's internal control over financial reporting. We consider the deficiencies described as 2008-1 and 2008-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2008-1 and 2008-2, are not material weaknesses.

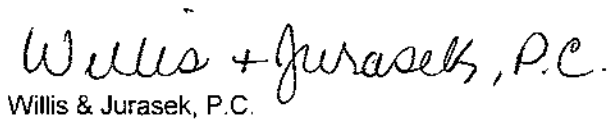
Board Members
Hillsdale Board of Public Utilities
Hillsdale, Michigan

Compliance

As part of obtaining reasonable assurance about whether the Hillsdale Board of Public Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Hillsdale Board of Public Utilities' response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the responses and, accordingly, we express no opinion on it.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Willis & Jurasek, P.C.

October 1, 2008

Schedule of Findings and Responses

Finding 2008-1

Currently, the BPU's staff prepares the interim internal and annual financial statements. The annual financial statements for the year ended June 30, 2008, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. Effective for the year ended June 30, 2008, Statement on Auditing Standards #112 titled Communicating Internal Control Related Matters Identified in an Audit (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. The staff of the BPU does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Finding 2008-2

Currently, management has decided not to present a Management's Discussion & Analysis as required. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standard #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to present this information. A MD&A is provided in the City-wide financial statements.



October 1, 2008

To the Board of Directors
Hillsdale Board of Public Utilities

We have audited the financial statements of the governmental activities of the Hillsdale Board of Public Utilities for the year ended June 30, 2008, and have issued our report thereon dated October 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

- 1) As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
- 2) As part of our audit, we considered the internal control of the Hillsdale Board of Public Utilities. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- 3) We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our discussions about planning matters held prior to the audit field work.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Hillsdale Board of Public Utilities are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear.

WILLIS & JURASEK, P.C.

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Web site: www.willispc.com

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The journal entries provided to management, including some that were material misstatements detected as a result of audit procedures, were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 1, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board and management of the Hillsdale Board of Public Utilities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 1, 2008

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Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.